

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: <u>South Haven Area Emergency Services</u>	County Van Buren
Audit Date December 31, 2004	Opinion Date February 15, 2005	Date Accountant Report Submitted To State: April 12, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 511 Renaissance Drive, Suite 120	City St. Joseph	State MI	ZIP 49085
Accountant Signature 			

South Haven Area Emergency Services Authority

**Financial Report
With Supplemental Information**

December 31, 2004

South Haven Area Emergency Services Authority

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Independent Auditor's Report

Board Members
South Haven Area Emergency Services Authority
South Haven, Michigan

We have audited the accompanying basic financial statements of the South Haven Area Emergency Services Authority as of December 31, 2004 and 2003 and for the years ended. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the South Haven Area Emergency Services Authority, as of December 31, 2004 and 2003, and the changes in financial position, including cash flows, for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management discussion and analysis and pension system schedule of funding progress, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit this information and, accordingly, do not express an opinion thereon.

As described in Note 1 to the financial statements, the Authority adopted the provisions of the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis – For State and Local Governments*, during the current year. As a result, these financial statements present new financial information.

Plante & Moran, PLLC

February 15, 2005



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South Haven Area Emergency Services Authority

Management's Discussion and Analysis

About the Authority

The Authority serves the City of South Haven and the townships of Casco, Geneva and South Haven located within the counties of Allegan and Van Buren. The Authority was established in 1996 under the Michigan Urban Cooperation Act ("Act 7") as a public entity providing emergency and non-emergency fire and ambulance services within the Authority. Since January 1996 the Authority has responded to 13,932 calls for assistance and has seen or treated over 10,320 patients and 4,727 fires. The Authority is governed by a five member board appointed by each Authority member council or board.

Mission Statement and Sources of Revenue

The Authority's mission is to preserve life, limb and property through aggressive fire service programs and provide the highest quality medical care with pride, integrity and courage. The Authority receives funding for its mission from each municipal member, a Van Buren County wide ambulance millage and user fees of the ambulance. User fees account for approximately 20% of the Authority funding the remaining amount is provided from each member through taxation. Through the Authority Agreement member funding for fire services is based on the percentage of the Authority's total taxable value multiplied by the approved fire budget. For example if a member has 50% of the Authority's total taxable value that member pays to the Authority 50% of the approved fire budget. For ambulance services funding is based on the percentage of the Authority's total population.

Condensed Financial Information

The following table represents condensed information about the Authority's financial position for the past two (2) fiscal years. Net assets increased approximately \$230,000 during the year. Total net assets include the investment in capital assets. Investment in capital assets represents the capital assets held by the Authority, net of related accumulated depreciation.

Assets	December 31	
	2004	2003
Current Assets	\$ 844,263	\$ 725,608
Property and Equipment	<u>1,633,928</u>	<u>1,636,703</u>
Total assets	<u>2,478,191</u>	<u>2,362,311</u>
Current Liabilities	161,901	161,590
Long-term Liabilities	<u>251,461</u>	<u>365,183</u>
Total liabilities	<u>413,362</u>	<u>526,773</u>
Net Assets		
Invested in capital assets	1,352,135	1,242,883
Unrestricted	<u>712,694</u>	<u>592,655</u>
Total net assets	<u>\$ 2,064,829</u>	<u>\$ 1,835,538</u>

Management's Discussion and Analysis

South Haven Area Emergency Services Authority

Operating Income and Expenses

The Authority has maintained a stable financial position during the year ended December 31, 2004. Operating income was sufficient to meet the current operating and non-operating expenses. A recap of operating and non-operating revenue and expenses for the past two (2) fiscal years is presented below.

	Year Ended December 31	
	2004	2003
Operating Revenue		
Sales and charges for services	\$ 2,073,753	\$ 1,955,507
Federal grant	<u>344</u>	<u>17,704</u>
Total operating revenue	2,074,097	1,973,211
Operating Expense	<u>1,837,728</u>	<u>1,790,833</u>
Net Operating Income	236,369	182,378
Nonoperating Expense	<u>7,078</u>	<u>22,297</u>
Net Income	229,291	160,081
Net Assets - Beginning of year	1,835,538	1,675,457
Net Assets - End of year	<u>\$ 2,064,829</u>	<u>\$ 1,835,538</u>

Capital Improvements

During the year the Authority had purchases of \$111,000 of equipment which was the final payment on a new tanker truck placed in service during 2004. The Authority has plans to purchase a vehicle for the Executive Director/Fire Chief during 2005.

South Haven Area Emergency Services Authority

Management's Discussion and Analysis

Future Projections

Funding for the Authority from member municipalities remains stable. Reimbursement for ambulance services rendered where a patient is transported but not treated at the hospital will continue to be an increasing challenge in the future. As the medical profession progresses, fewer patients will need transport to a hospital after treatment. Also the increasing inability of citizens to pay out of pocket for our services will increase as high paying jobs give way to lower wages. Medicare provides only a small reimbursement for these services unless the patient is transported. These issues are beyond the Authority scope. The Authority along with the Michigan Ambulance Association support legislation that increases reimbursement for costs incurred.

Contacting the Authority Management

This management report/discussion provides an overview of the current and prospective financial condition of the Authority operations and physical assets. If there are questions concerning this report or if additional information is desired, please contact the Executive Director/Fire Chief at 269-637-5151 or e-mail rvanwynen@shaes.org.

South Haven Area Emergency Services Authority

Statement of Net Assets

	December 31	
	2004	2003
Assets		
Cash (Note 3)	\$ 661,275	\$ 518,070
Investments (Note 3)	125,419	122,652
Accounts receivable - net of allowance for contractual adjustments of \$41,851 in 2004 and \$43,162 in 2003	46,164	60,125
Prepaid expenses	11,405	24,761
Capital assets (Note 4)	<u>1,633,928</u>	<u>1,636,703</u>
Total assets	2,478,191	2,362,311
Liabilities		
Accounts payable and other accrued liabilities	52,162	49,563
Capital leases (Note 5)		
Due within one year	9,739	12,027
Due in more than one year	22,054	31,793
Noncurrent liabilities		
Due within one year (Note 6)	100,000	100,000
Due in more than one year (Note 6)	150,000	250,000
Accrued compensated absences	<u>79,407</u>	<u>83,390</u>
Total liabilities	<u>413,362</u>	<u>526,773</u>
Net Assets		
Invested in capital assets net of related debt	1,352,135	1,242,883
Unrestricted	<u>712,694</u>	<u>592,655</u>
Total net assets	<u>\$ 2,064,829</u>	<u>\$ 1,835,538</u>

South Haven Area Emergency Services Authority

Statement of Revenue, Expenses and Changes in Net Assets

	Year Ended December 31	
	2004	2003
Revenue		
Fire services fees	\$ 1,558,189	\$ 1,484,291
Ambulance service fees	506,281	465,326
Federal grants	344	17,704
Miscellaneous	<u>9,283</u>	<u>5,890</u>
Total operating revenue	2,074,097	1,973,211
Operating Expenses		
Fire expenses	881,097	880,985
Ambulance expenses	<u>956,631</u>	<u>909,848</u>
Total expenditures	1,837,728	1,790,833
Net Operating Income	236,369	182,378
Nonoperating Revenue (Expenses)		
Interest earnings on investments	6,794	6,677
Loss on sale of capital assets	-	(12,234)
Interest expense	<u>(13,872)</u>	<u>(16,740)</u>
Total nonoperating expenses	<u>(7,078)</u>	<u>(22,297)</u>
Net Income	229,291	160,081
Net Assets - Beginning of year	<u>1,835,538</u>	<u>1,675,457</u>
Net Assets - End of year	<u>\$ 2,064,829</u>	<u>\$ 1,835,538</u>

South Haven Area Emergency Services Authority

Statement of Cash Flows

	Year Ended December 31	
	2004	2003
Cash Flows from Operating Activities		
Cash received from customers	\$ 1,837,811	\$ 1,744,944
Cash payments to suppliers for goods and services	(454,132)	(473,782)
Cash payments to employees for services	(1,007,527)	(966,609)
Net cash provided by operating activities	376,152	304,553
Cash Flows from Capital and Related Financing Activities		
Purchase of capital assets	(111,075)	(113,464)
Principal payments on capitalized leases	(12,027)	(11,818)
Principal payments on long-term debt	(100,000)	(100,000)
Interest expense	(13,872)	(16,740)
Net cash used in capital and related financing activities	(236,974)	(242,022)
Cash Flows from Investing Activities		
Purchase of investments	(2,767)	(2,704)
Interest earned on investments	6,794	6,677
Net cash provided by investing activities	4,027	3,973
Net Increase in Cash	143,205	66,504
Cash - Beginning of year	518,070	451,566
Cash - End of year	\$ 661,275	\$ 518,070

South Haven Area Emergency Services Authority

Statement of Cash Flows (Continued)

	Year Ended December 31	
	2004	2003
Reconciliation of Operating Income to Cash Flows from Operating Activities		
Operating income	\$ 236,369	\$ 182,378
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation	113,850	108,967
Bad debts and contractual adjustments	250,247	245,020
(Increase) decrease in assets:		
Accounts receivable	(236,286)	(216,033)
Prepays	13,356	(14,298)
Increase (decrease) in liabilities:		
Accounts payable and other accrued liabilities	2,599	(11,120)
Accrued employee benefits	(3,983)	9,639
Net cash provided by operating activities	<u>\$ 376,152</u>	<u>\$ 304,553</u>

South Haven Area Emergency Services Authority

Notes to Financial Statements December 31, 2004 and 2003

Note 1 – Nature of Entity

South Haven Area Emergency Services Authority (the "Authority") is a joint venture of the City of South Haven, Casco Township, Geneva Township, and the Charter Township of South Haven, Michigan, and was created pursuant to Public Act 129, Michigan Public Acts of 1943. Its allowed purpose is to provide emergency services. The Authority currently provides fire rescue and ambulance services to these communities.

The Internal Revenue Service has ruled that the Authority is a political subdivision of the State of Michigan and, as a result, is exempt from Federal Income Tax.

Note 2 – Summary of Significant Accounting Policies

The accounting policies of the South Haven Area Emergency Services Authority conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of significant accounting policies:

Reporting Entity - The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in a reporting entity. In accordance with these guidelines, there are no component units to be included in the financial statements.

Basis of Accounting - The accrual basis of accounting is used to account for the operations of the Authority. The Authority follows all pronouncements of the Governmental Accounting Standards Board and those of the Financial Accounting Standards Board issued prior to November 30, 1989.

Change in Accounting - Effective January 1, 2004, the Authority implemented the provisions of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments*. Significant changes, as prescribed by the Statement include the following:

- These statements now include a Management's Discussion and Analysis section;
- The equity section is now reported as Net Assets (in its two components), rather than as retained earnings.

The implementation of GASB Statement No. 34 had no effect on reported net income.

South Haven Area Emergency Services Authority

Notes to Financial Statements December 31, 2004 and 2003

Note 2 – Summary of Significant Accounting Policies (Continued)

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Investments - Investments are recorded at fair value, based on quoted market prices.

Accounts Receivable - Accounts receivable are due primarily from insurance carriers and individuals. Amounts included in accounts receivable are net of an estimated allowance for contractual adjustments.

Capital Assets - Capital assets are stated at cost at the date of acquisition. Major improvements and renewals are capitalized, while ordinary maintenance and repairs are expensed. Depreciation has been provided using the straight-line method over the estimated useful lives of the assets.

Compensated Absences (Vacation and Sick Leave) - Full-time employees of the Authority are entitled to sick leave of one work day with pay for each completed month of service. The number of days that may be accumulated is limited to a maximum of 60 days. At retirement or death, these employees will be paid up to the maximum accumulated sick leave at a rate of 50 percent of base pay. Employees are not entitled to any payment if termination occurs prior to retirement or death. No liability was recorded for accrued sick pay at December 31, 2004 or 2003, as that amount cannot be determined. The maximum liability is \$118,017 and \$125,104, respectively.

Full-time employees are permitted an annual paid vacation of from three to ten days depending upon seniority. An employee is allowed to accrue up to 30 days. The amount of liability recorded for accrued vacation pay at December 31, 2004 and 2003 amounted to \$79,407 and \$83,390, respectively.

Reclassifications - Certain reclassifications have been made to the December 31, 2003 financial statements to conform to the December 31, 2004 financial presentation. These classifications have no effect on net income as previously reported.

South Haven Area Emergency Services Authority

Notes to Financial Statements December 31, 2004 and 2003

Note 3 – Deposits and Investments

The Authority's deposits and investments are included on the balance sheet under the following classifications:

	2004	2003
Cash and cash equivalents	\$ 661,275	\$ 518,070
Investments	125,419	122,652
Total	<u>\$ 786,694</u>	<u>\$ 640,722</u>

The Authority's deposits included on the balance sheet are classified by Governmental Accounting Standards Board Statement Number 3 as follows:

	2004	2003
Bank deposits (checking accounts, savings accounts and certificates of deposit)	<u>\$ 786,694</u>	<u>\$ 640,722</u>

Deposits - The above deposits were reflected in the accounts of the bank (without recognition of checks written, but not yet cleared, or of deposits in transit) at \$794,569 and \$660,953 for December 31, 2004 and 2003, respectively. Of that amount, approximately \$200,000 at December 31, 2004 and 2003 was covered by federal depository insurance and the remainder was uninsured and uncollateralized. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Authority evaluates each financial institution it deposits Authority funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

South Haven Area Emergency Services Authority

Notes to Financial Statements December 31, 2004 and 2003

Note 4 – Capital Assets

Capital asset activity for the year ended December 31, 2004, was as follows:

	January 1, 2004	Additions	Disposals	December 31, 2004	Depreciable Life-Years
Land	\$ 14,814	\$ -	\$ -	\$ 14,814	-
Land Improvements	12,184	-	-	12,184	20
Building	222,669	-	-	222,669	40
Equipment	<u>2,003,776</u>	<u>111,075</u>	<u>-</u>	<u>2,114,851</u>	5-15
	2,253,443	111,075	-	2,364,518	
Less accumulated depreciation	<u>(616,740)</u>	<u>(113,850)</u>	<u>-</u>	<u>(730,590)</u>	
Undepreciated cost	<u>\$ 1,636,703</u>	<u>\$ (2,775)</u>	<u>\$ -</u>	<u>\$ 1,633,928</u>	

The total cost and accumulated depreciation of equipment under capital leases was \$90,000 and \$67,500 for 2004 and \$918,890 and \$386,000 for 2003.

Note 5 – Capital Leases

The Authority has entered into lease agreements as lessee for financing the purchase of equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date.

	Beginning Balance	Reductions	Ending Balance	Due within one year
Equipment Lease Payable	\$ 41,391	\$ (9,598)	\$ 31,793	\$ 9,739
Equipment Lease Payable	<u>2,429</u>	<u>(2,429)</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 43,820</u>	<u>\$ (12,027)</u>	<u>\$ 31,793</u>	<u>\$ 9,739</u>

South Haven Area Emergency Services Authority

Notes to Financial Statements December 31, 2004 and 2003

Note 5 – Capital Leases (Continued)

The future minimum lease payments for all capital leases included above as of December 31, 2004 are as follows:

	Present Value	Amount Representing Interest	Total Minimum Lease Payments
2005	\$ 9,739	\$ 467	\$ 10,206
2006	9,882	324	10,206
2007	10,027	179	10,206
2008	<u>2,145</u>	<u>31</u>	<u>2,176</u>
Total	<u>\$ 31,793</u>	<u>\$ 1,001</u>	<u>\$ 32,794</u>

Note 6 – Long-Term Debt

Long-term debt activity can be summarized as follows:

	Beginning Balance	Reductions	Ending Balance	Due within one year
Equipment Loan Payable	<u>\$ 350,000</u>	<u>\$ (100,000)</u>	<u>\$ 250,000</u>	<u>\$ 100,000</u>

Annual debt service requirements to maturity for the above debt are as follows:

	Principal	Interest	Total
2005	\$ 100,000	\$ 8,775	\$ 108,775
2006	100,000	4,875	104,875
2007	<u>50,000</u>	<u>975</u>	<u>50,975</u>
Total	<u>\$ 250,000</u>	<u>\$ 14,625</u>	<u>\$ 264,625</u>

South Haven Area Emergency Services Authority

Notes to Financial Statements December 31, 2004 and 2003

Note 7 – Risk Management

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Authority has purchased commercial insurance for all of the above claims. The Authority is self-insured for chiropractic claims up to a maximum of \$500 per family per year. This program ended during 2004.

Note 8 – Defined Benefit Pension Plan

Plan Description

The Authority's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Authority participates in the Michigan Municipal Employees' Retirement System, an agent multiple-employer plan administered by the MERS Retirement Board, Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report can be obtained by writing to the Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy

The Authority is required to contribute at an actuarially determined rate at various percentages of payroll. Employees are currently not required to contribute to the Plan. The contribution requirements of the Authority are established and may be amended by the Retirement Board of MERS. The contribution requirements of the plan members, if any, are established and may be amended by the Authority, depending on the MERS contribution program adopted by the Authority.

South Haven Area Emergency Services Authority

Notes to Financial Statements December 31, 2004 and 2003

Note 8 – Defined Benefit Pension Plan (Continued)

For the year ended December 31, 2004, the Authority's annual pension expense of \$29,316 for MERS was equal to the Authority's required contribution. The required contribution was determined as part of the December 31, 2003 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0 percent, (b) projected salary increases of 4.5 percent per year, compounded annually, 3 to 4 percent attributable to inflation, and (c) additional projected salary increases of 4.16 to 8.7 percent per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect market value. The Authority's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2003, the date of the last actuarial valuation was 30 years.

Three-year trend information as of December 31 follows:

	Fiscal Year Ended December 31		
	2002	2003	2004
Annual pension costs	\$ -	\$ 24,809	\$ 29,316
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

Required Supplementary Information

South Haven Area Emergency Services Authority

Required Supplementary Information Pension System Schedule of Funding Progress Year Ended December 31, 2004

Actuarial Valuation Date	Value of Assets (a)	Accrued Liability (AAL)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	Percentage of Covered
12/31/99	\$ 1,081,131	\$ 932,517	\$ 148,613	116.0	\$ 567,080	-
12/31/00	1,234,594	1,204,446	30,147	103.0	582,130	-
12/31/01	1,412,940	1,580,879	(167,939)	89.0	633,132	27
12/31/02	1,571,107	1,810,148	(239,041)	87.0	665,165	36
12/31/03	1,770,399	2,033,048	(262,649)	87.0	632,196	42

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution	Percentage Contributed
12/31/00	12/31/99	\$ -	100.0
12/31/01	12/31/00	-	100.0
12/31/02	12/31/01	-	100.0
12/31/03	12/31/02	24,809	100.0
12/31/04	12/31/03	29,316	100.0

Actuarial cost method		Entry age
Amortization method		Level percent
Amortization period (perpetual)		30 years
Asset valuation method		5-year smoothing of market value starting at 12/31/93
Actuarial assumptions:		
Investment rate of return		8.0%
Projected salary increases		4.5% - 8.7%
Includes inflation at		4.5%
Cost of living adjustments		None

To the Authority Board
South Haven Area Emergency Services Authority
South Haven, Michigan 49085

In planning and performing our audit of the basic financial statements of South Haven Area Emergency Services Authority for the year ended December 31, 2004, we considered the Authority's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements. The consideration we gave to the internal control structure was not sufficient for us to provide any form of assurance on it. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions are significant deficiencies in the design or operation of the internal control structure that have come to our attention and, in our judgment, could adversely affect the Authority's ability to record, process, summarize, and report financial data consistent with management's assertions inherent in the basic financial statements. This report contains items considered to be reportable conditions, as defined above, as well as other items we feel warrant your consideration.

FINANCIAL OVERVIEW

During the fiscal year ended December 31, 2004, the Authority experienced growth in net assets. Revenues exceeded expenditures by approximately \$230,000. We commend the Board for their planning and budgeting. While many municipal entities continue to experience difficulties during the recent uncertain times, the Authority has positioned itself well for handling potential adverse circumstances with ending net assets of approximately \$2,065,000.

SEGREGATION OF DUTIES

Control over cash receipts transactions is limited because of insufficient segregation of duties. The same individual accepts cash receipts, records cash receipts, prepares bank deposits, makes bank deposits, receives bank statements and then reconciles the statements. However, at this time, management feels that it is not cost effective to add personnel.

CAPITALIZATION POLICY

During our testing of capital assets, it was noted that there continues to be an informal capitalization policy, however there is not a consistent threshold used in deciding whether to capitalize or expense a purchase. We recommend that the Board approve a formal capitalization policy with a specific threshold. This will assist the Authority in appropriately recording all capital assets.

APPROVAL OF INVOICES

During our testing of cash disbursements, we noted two invoices that did not display formal approval for payment. Currently, all invoices are brought before the Board for review. Once approved and payment is made, the check copy is stapled to the invoice and other supporting documentation and filed. We recommend formal approval of all invoices with corresponding signature or initials. This provides an added safeguard against the payment of erroneous invoices.

BUDGETING

During our audit, we noted that the Authority's budgeting practices are very conservative. While it is good to be conservative, we noted that Ambulance billings were significantly under budgeted for the last two years. We recommend that this line item be amended during the year to reflect actual expectations.

In addition, the Authority does not budget for depreciation expense. Due to the fact that the Authority's accounting personnel are recording depreciation on a monthly basis, and therefore the amounts are known, we recommend that this line item be budgeted. Implementation of these budgeting suggestions should allow the Board to have a better idea of the Authority's true financial position.

CASH RECONCILIATION

We noted, during our audit of cash, that the Authority's bank reconciliation continues to include four old outstanding checks that were also on the reconciliation in 2003. We recommend that the Authority follow up on these items and deal with them in the appropriate manner.

NEW POLICIES

We would like to commend the Board on the adoption of two new policies during the year: the ACH Transaction Policy and the Credit Card Policy. By adopting these policies, the Authority is complying with the State of Michigan requirements for local governments.

NEW REPORTING MODEL – GASB 34

As you know, the Authority adopted a new accounting pronouncement, GASB 34, beginning January 1, 2004. GASB 34 did not significantly change the Authority's financial statements, due to the fact that there is only an Enterprise Fund. We will be happy to discuss this accounting change and any concerns that the Authority may have.

We appreciate the courtesy and cooperation extended to us by you and members of your organization during the audit. We appreciate the opportunity to present these recommendations for your consideration and would be pleased to discuss them further at your convenience.

Plante & Moran, PLLC

February 15, 2005